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October 25, 2024

BSE Limited
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Scrip Code: 541336

Symbol: INDOSTAR

Sub.: Transcript of analyst(s) / institutional investor(s) call held on October 21, 2024 at 12:30 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Monday, October 21, 2024 at 12:30 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter and half year ended September 30, 2024.

The transcript is also available on the website of the Company at www.indostarcapital.com.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

SHIKHA JAIN

Digitally signed by SHIKHA JAIN
Date: 2024.10.25 18:54:00 +05'30'

Shikha Jain
Company Secretary & Compliance Officer
(Membership No. A59686)

Encl: a/a

"IndoStar Capital Finance Limited

Q2 and H1 FY '25 Earnings Conference Call

October 21, 2024

MANAGEMENT: **MR. RANDHIR SINGH – EXECUTIVE VICE CHAIRMAN -- INDOSTAR CAPITAL FINANCE LIMITED**
MR. KARTHIKEYAN SRINIVASAN – CHIEF EXECUTIVE OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. VINODKUMAR PANICKER – CHIEF FINANCIAL OFFICER – INDOSTAR CAPITAL FINANCE LIMITED
MR. SHREEJIT MENON –CHIEF EXECUTIVE OFFICER – INDOSTAR HOME FINANCE PRIVATE LIMITED
MR. PUSHKAR JOSHI – CHIEF FINANCIAL OFFICER – INDOSTAR HOME FINANCE PRIVATE LIMITED

MODERATOR: **MR. VIRAL SANKLECHA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to IndoStar Capital Finance Limited Q2 and H1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Sanklecha from Orient Capital. Thank you, and over to you.

Viral Sanklecha: Thank you, Shilpa. Good afternoon, ladies and gentlemen. I welcome you for the Q2 and H1 FY '25 earnings conference call of IndoStar Capital Finance Limited. To discuss this quarter's business performance, we have from the management, Mr. Randhir Singh, Executive Vice Chairman; Mr. Karthikeyan Srinivasan, Chief Executive Officer; Mr. Vinodkumar Panicker, Chief Financial Officer; Mr. Shreejit Menon, CEO, IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, CFO IndoStar Home Finance Private Limited.

Before we proceed with this call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on company's website.

Without further ado, I would like to hand over the call to the management for their opening comments, and then we will open up floor for Q&A. Thank you, and over to you, sir.

Randhir Singh: Good afternoon, ladies and gentlemen. I'm Randhir Singh, Executive Vice Chairman of IndoStar Capital Finance Limited, and I welcome you to our Q2 FY '25 earnings call to discuss our financial performance. I hope you had the opportunity to review our financial results and investor presentation, which are accessible on our website and via the stock exchanges.

Joining me today are Mr. Karthikeyan Srinivasan, our Chief Executive Officer; Mr. Vinod Panicker, our Chief Financial Officer; Mr. Shreejit Menon, the Chief Executive Officer of IndoStar Home Finance Private Limited; and Mr. Pushkar Joshi, the Chief Financial Officer of IndoStar Home Finance Private Limited. At the outset, let me share with you how we have structured this call.

First, I'll briefly cover some key strategic highlights that the management team delivered over the last quarter. Then Karthik will provide you an overview of the macroeconomic drivers and key industry trends, setting the broader context for the financial performance of our CV business. Vinod will then provide Q2 FY '25 earnings update for the stand-alone parent entity. This will then be followed by Shreejit, sharing the quarter two FY '25 earnings call update for IndoStar Home Finance Private Limited.

Post this, we will open the call for further questions. Here is an overview of some of the key developments at IndoStar for the last quarter. First, sale of IndoStar Home Finance Ltd. to EQT. We discussed this in our previous call on the 19th September 2024. IndoStar Capital Finance announced the sale of its wholly owned subsidiary, IndoStar Home Finance Private Limited, to Witkopeend BV, an affiliate of BPEA EQT Mid-Market Growth Partnership, a global private equity investor, for INR1,750 crores on a fully diluted basis. The transaction is subject to customary conditions precedent, including receipt of RBI approval, consent from lenders and shareholders.

Number two, rating upgrade by CRISIL to stable. On September 9th, 2024, the long-term rating of IndoStar Capital Finance Limited's facilities and instruments was upgraded by the rating agency CRISIL to stable from negative while reaffirming the rating at CRISIL AA-, and short-term rating of commercial paper is reaffirmed at A1+.

Third, issue of secured, redeemable, nonconvertible debentures. During the last quarter, the company raised INR266 crores through its maiden public issue of secured, redeemable, nonconvertible debentures. I will now hand over the call to Karthik.

Karthikeyan Srinivasan: Thank you, Randhir, and good afternoon, everyone. Welcome you all on this call today. I truly appreciate all of you being part of our journey. Let me start by discussing the macroeconomic factors this quarter, which has been quite tough. The IMF had reaffirmed India's growth forecast for '24 at 7% in July. The improved prospects for private consumption, particularly in rural areas, was a key factor in this forecast. The IMF expects a slight moderation of growth to 6.5% next year.

The annual retail inflation based on the All India Consumer Price Index rose to 5.49% in September, higher than the 3.65% in August. The key driver was food inflation that rose to 9.24% annually compared to 5.66% in August, which was triggered by the late second phase of the monsoon that affected both vegetable output and supply to local markets. If you notice, even in today's newspaper, there has been a discussion around how onion is getting impacted due to late arrival as well as damage due to the monsoon.

While inflation was still within the Reserve Bank's medium-term target of 2.6%, this is the highest-level inflation rate since December '23 when it was 5.69%. In view of this stubborn inflation, the RBI has kept the repo rate unchanged at its monetary policy meeting on October 9th, 2024. This is the 10th consecutive meeting since February 8th, 2023, that the MPC has held the repo rate steady at 6.5%, while it has changed the stance of the monetary policy to neutral from withdrawal of accommodation.

The RBI Governor, in his address, pointed to the high growth the NBFC sector has witnessed in the last few years and urged caution when he said, I quote, "A growth at any cost approach would be detrimental." Given the tone of the regulator and the tightening of regulatory norms for bank funding to the NBFC sector, already -- this has already impacted the NBFC's access to funds.

According to an ICRA report from August '24, the elevated cost of funds increased competitive pressure from banks, slowing growth and resulting asset quality challenges is expected to result in weakening profitability for the NBFCs, which is expected to decline by 25 to 45 basis points vis-à-vis '24 level.

Now changing gears to the commercial vehicle industry. Over the past few years, especially in '22 and '23, the CV industry saw a good growth, both in volume and tonnage terms, greatly expanding our foundation. This was basically the COVID rebound years where the market wanted to invest in newer and newer commercial vehicles and BS-VI was also new.

This growth was also driven by infrastructure development, increased mining activities, a replacement demand that got kicked in because of COVID years didn't trigger the replacement demand. As we look forward, this replacement demand is expected to be steady, primarily driven by aging fleet. The implementation of the scrappage policy is likely to also spur the new vehicle growth.

Despite the strong revival of the monsoon in the second phase, we believe the CV growth in the current year will moderate, driven by the high cost of the new BS-VI vehicles, which continues to rise, and with the new air-conditioned driver cab rules coming into force in March next year, we see no respite in the rise of the vehicle cost.

In addition to this, interest rates are also expected to remain high, muting growth. Given the rise in the new vehicle cost, the used CV segment will continue to see a high demand from transporters. The drivers for this are as follows. First and foremost, there is a scarcity of old vehicles and fewer financing options available for the retail and FTU Profile.

Over the past two years, the used CV industry has grown by close to 30% due to price hikes, driving limited supply. This scarcity originates from the COVID years, sale of new vehicles being muted and driven by the move from BS-IV and the industry being impacted by COVID. The overhang of the scrappage policy, which we are seeing each of the states coming up with newer and newer version, will also push customers to sell their older vehicles to the -- which are close to the 10-year mark and replace them with recent-used commercial vehicles.

At IndoStar, we are committed to our goal of exploring new products, strategies to boost returns and diversifying our offerings to retail CV operators. We plan to launch ancillary products around the trucking industry, like the tyre finance, so that the complete benefit of IndoStar can get translated to our customers. We remain committed to enhancing our analytics to ensure our model is flexible and capable for growth.

Recognizing the increasing importance of technology, we have made significant investments in our end-to-end loan origination system, which is now digitally driven. Additionally, we are also expanding our operations, particularly in Tier 3, Tier 4 locations, with an emphasis addressing the rise in rural demand due to good monsoon.

The commercial vehicle disbursement for Q2 FY'25 reached INR1,499 crores, showing a growth of 53% over the previous year of INR948 crores. We have actively pursued our goal to reduce NPAs through the implementation of robust collection tactics, superior credit appraisal and stringent control measures, and we have been able to reduce delinquencies quarter-on-quarter, even though the last quarter, it has been challenging due to the delayed monsoon and the second phase of the monsoon.

Currently, our GNPA stood at -- stands at 4.97% for FY'25 Q2 for the stand-alone entity. We have also launched our new small business loan division with a focus on micro loans against property, particularly targeted at Tier 3, Tier 4. This, we have launched in the Tamil Nadu market. This strategic shift not only ties closely with the market demand but also reflects our dedication to expanding our footprint and supporting entrepreneurship in under served regions.

Now I hand over the call to Mr. Vinod Panicker for our financial performance.

Vinodkumar Panicker: Thank you, Karthik, and good afternoon to all of you. I sincerely appreciate your presence on this conference call today, and I appreciate the fact that most of you have been with us over the last several quarters. Please allow me to provide you with an overview of our financial performance for Q2 and H1 of FY'25.

Before we begin with the financial performance, we just wanted to mention that post announcement of HFC business sale, the consolidated numbers are presented as per Ind AS 105 noncurrent assets held for sale and discontinued operations. All consolidated numbers that I am mentioning now would be including the housing finance business.

During the quarter, our consolidated net income from operations was at about INR 218.5 crores, showing a 14% increase on a quarter-on-quarter basis and showed a net interest margin of about 5.6%.

Turning to the operating expenses. We recorded INR160.5 crores in the quarter, representing a 16% increase over the immediately preceding quarter, which was on account of both increase in workforce and also branch expansion costs. Our overall profit -- consolidated profit stood at INR31.7 crores as compared with INR24.9 crores in the immediately preceding quarter.

On a consol basis, our assets under management was at about INR10,112 crores as compared to INR9,565 crores in the immediately preceding quarter and up by 31% versus the INR7,726 crores that was there in the same quarter last year. The disbursement in the current quarter was at about INR1,724 crores on a consol basis versus about INR1,627 crores in the immediately preceding quarter and against INR1,269 crores in the same quarter of last year. This can be attributed to the strong focus on the retail segment. Retailization effort continues to yield favorable results, and we are confident in sustaining profitable growth in the coming quarters.

At ICF stand-alone level, our net total income stood at INR165.9 crores, an increase of 15% from INR143.8 crores in the immediately preceding quarter. Our operating expense was at about INR129 crores, up from about INR112 crores from the -- which was there in the immediately preceding quarter.

As on 30th September, we maintained a cash and cash equivalent of about INR791 crores. Additionally, about INR512 crores was kept in bank and trust towards securitization deals as security deposits. This is even after we repaid close to INR1,300 crores of our debt in the current quarter.

In terms of funding, we have made substantial progress in improving our liquidity position by improving incremental funding -- raising incremental funding of about INR2,361 crores in the second quarter, including INR1,391 crores which came from bank, either in the form of term loans or working capital demand loan or securitization.

Our emphasis on the coming quarter -- in the coming quarters is to continue increased financing from banking channels in a big way. That was one of the points which was possibly worrying most of you when we spoke in the several quarters -- past few quarters.

Over the last 3 quarters, incrementally funds are being raised at lower levels as the confidence of the bank and the other investors -- other lenders on IndoStar has improved. Our incremental cost has come down from about 12.7% that was there in Q4 FY'22 to 10.1% in Q2 FY'25.

During the quarter, we -- like Randhir mentioned, we successfully completed our maiden public issue of NCDs that we had issued at a coupon rate of anything between 10.3% to 10.7%. This trend, we are hopeful of continuing as the business stabilizes and is seen by the lenders as such.

Our capital adequacy stood at about 25.9% and the debt equity is at above 2.26x, both of which gives ample idea to anyone who looks at the numbers that there is ample headroom for further growth and for further borrowing, which will lead to further growth. The more we leverage is the more we will be able to improve our ROE going forward.

The disbursement in the vehicle finance segment was at about INR1,449 crores, like Karthik mentioned, up by about 53% versus the same quarter last year. And for the vehicle finance, the AUM stood at about close to INR7,000 crores, at INR6,964 crores, up by about 10% against the immediately preceding quarter.

We are pleased to report that our yields have also improved significantly. And with our focus on Tier 3 and Tier 4 and also focus on light commercial vehicles and other smaller assets, which we combine and call it as Focus4, the yields have gone up to 18.5% from about 17.5% that was there about a year back.

Notably, 99% of our CV disbursement is in the used CV space, which permits us to get better yields. Collections have been impacted by heat wave and heavy rain across the industry, and some of it you see now in our collections as well. We achieved a total collection of INR993 crores during the quarter as against INR905 crores in the immediately preceding quarter.

Our CV EMI to EMI collection efficiency was at about 89%, and including overdue at about 93%, which is about 200 bps lower than the immediately preceding quarter. We managed to keep the gross Stage 3 at 4.97% while the net Stage 3 inched up slightly to about 2.5%. With net revenue from operations improving and opex stabilizing, we expect to improve our profitability in the next few quarters.

Now I invite my colleague, Shreejit Menon, to provide further insights into the housing finance business, which is another key area of our business in the -- until the last quarter. Over to you, Shreejit

Shreejit Menon: Thank you, Vinod. Good afternoon, ladies and gentlemen. I'd like to start by taking you through the key highlights that illustrate our accomplishments during the quarter ended September 30, 2024. Randhir mentioned about the milestone transaction, and really that's a validation of the business and the business model and sets us up to becoming a pedigree affordable housing finance company in the years to come.

Now moving on to the business parameters. Despite the lean seasonality, we continued the growth momentum from Q1 to clock INR261 crores disbursement numbers for Q2 FY'25. We are delighted to inform that we've made strong progress across most business matrices. During the quarter 2, with a total disbursements of INR261 crores, our assets under management reached INR2,561 crores, representing a robust growth of 13% on a YTD basis.

Our loan book stood at INR2,047 crores. Our customer base now stands at more than 32,500, depicting our granular nature of our assets with an average ticket size of INR9 lakhs. And we've maintained that average ticket size now for over the last 2 years. Tamil Nadu, AP, Telangana and Maharashtra continue to remain our core geographies, accounting for almost 85% of our portfolio.

We continue our journey to enhance operational efficiency and embrace digital transformation. We've now got a total branch network of 128 branches across the country as on 30th September 2024, and continue to expand radially in the chosen geographies by way of digital locations.

Maintaining excellent asset quality remains a cornerstone of our operations. Our 90-plus days past due portfolio stands at 1% and 1 plus DPD stood at 3.9% as on 30th September '24, which is range bound as compared with 0.9% and 3.95%, respectively, in previous quarter. Our gross Stage 3 assets, GNPA, stood at 1.41% as on September 30, 2024.

We continue to enhance our digital infrastructure to provide a seamless experience to our valued customers. As mentioned during the last quarter, we've now gone live with our digital connector app to onboard connectors seamlessly starting this quarter.

Continuous progress in digital capabilities remain a way of life for us. And as part of that journey, we've developed and automated initiation of legal, technical and FI request from the system, which is expected to further reduce the log-in to sanction TAT as we move forward.

We received our corporate agency license from IRDA on August 19, 2024, which was a key element in the plan for financial year '24-'25. With this license, we can now distribute insurance products to our customers, which will add to our top line.

On the liability side, we successfully raised INR495 crores during the quarter, majorly through term loans from banks and PTCs. We're also pleased to report a strong liquidity position with INR369 crores of cash on the balance sheet.

Now moving on to our financial performance. Our total income for the quarter 2 of FY '25 stood at INR95 crores, with net interest income at INR55 crores. The same figures for H1 FY25 stood at INR180 crores and INR104 crores, respectively. Pre-provision operating profits stood at INR21 crores for quarter 2 and INR42 crores for H1 FY25.

Profit after tax stood at INR14 crores for the quarter and INR28 crores for H1 FY25. Our return on asset as a result stood at nearly 3% for H1 FY25. We maintain a strong capital adequacy of 55.7% and a debt-to-equity ratio of 3.2x.

In conclusion, our commitment to innovation, efficiency and maintaining a high asset quality continues to drive our success. Looking ahead, we remain focused on executing our strategic initiatives to further enhance our operational excellence, expand our customer base and explore opportunities for growth. We are extremely optimistic about the future and remain dedicated to delivering sustained value to our investors and our stakeholders.

Thank you once again for your continued support and participation. With this, I hand over the call to the moderator for further course.

Moderator: Thank you very much Sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch tone telephone. If you wish to remove yourself from question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentleman we will wait for a moment while the question queue assembles.

We have the first question from the line of Mr. Vivek Ramakrishnan from DSP Mutual Funds. Go ahead sir.

Vivek Ramakrishnan: Thank you and good afternoon. This is the first question, it's like a large question, which is around the CV price increase and collection efficiency. Does the CV price increase mean that the freight rates have also increased? Or will it be longer-term tenors for your customers?

The second thing is, what is the financial health of your target segment? Is that part of the economy doing well? And importantly, this whole microfinance episode that we are hearing about in the market. We see that Fintechs are there with the erstwhile microfinance customers, and that is also impacting credit quality. So for your operators, do you see overleveraging as a problem?

Karthikeyan Srinivasan: So I'll take it step by step. See, CV excessive pricing or the increase in pricing needs to get addressed by a longer-term tenor, but NBFCs today don't have the wherewithal to give a longer-term tenor of 7 years. 7 years will be the ideal scenario. If you look at international markets like a Brazil or China, commercial vehicles new gets sold for 7 years because the vagaries get managed with a lower EMI. But that's not going to happen here because I'll get into an ALM problem.

So it will be a short-term product only, 4 years maximum or 5 years. That's the product which we'll be offering. Because of the nature of our economy, and we don't have a comprehensive scrappage policy. We will go through these kind of vagaries in the market. That's why it will be restricted.

Second, collections. The extended monsoon has impacted collections. Many of the vehicles were not able to move. That's the major problem, which we have been observing from operators. We feel like this month, once the monsoon starts coming down, but for the southern markets, the recovery will be good. Southern markets still last month were still holding on delinquency. There were no problems. A few pockets of Kerala like Wayanad and all have got impacted due to the road flood, but that will recover over a period of time.

Are my profiles impacted by the microfinance? As of today, we have not seen any major stress coming in there because these profiles typically are negative profiles for microfinance companies also because typically if he is a transporter, these guys are not treated like a prime customer even in the microfinance profile. So as of today, we have not seen. But once we get an idea of balanced companies start coming out with the results, we'll be able to find out, but we are not seeing anything.

The last question around freight rate increase, we have not seen any freight rate increase as of today. The first half of the festive season has been quite muted.

Vivek Ramakrishnan: **Thank you very much.** So actually, what I meant was these Fintechs have landed up at the doorsteps of a lot of companies. And so people are getting overleveraged buying consumer durables and all, so I was wondering whether your freight operators have that issue.

Karthikeyan Srinivasan: As of now, we are not seeing any observed anything.

Vivek Ramakrishnan: Okay. Excellent. The second question, and this is to Vinod. And congratulations on increasing your bank loans, which you really have worked hard upon. This is regarding the write-offs and provisions that we see. So essentially, what you've done is write off the Stage 3 loans and reduce the ECL provisions against that. Is that what you have done in this quarter? And if that is so, could you just explain your write-off policy, please?

Vinodkumar Panicker: See, Vivek, thanks for being on the call and thanks for kind words, actually. I hope I'm audible. See, we have done 2, 3 things. One is, definitely, we have got the policy of anything above 730, we take 730 days outstanding or we have not received a single rupee, have an option to take a call on that. That's something which is basis our policy. So anything which was there above 730 days outstanding DPD, that's what we have actually written off. That was one thing that we did.

And therefore, the ECL provisioning on that, there would not be any reversals because of that. My provision that I take is only about 50 it being a pre to March '22 kind of portfolio, it would be closer to 60%. So the additional balance of 40% would have been provided by me. That is how we have done that. It's -- that's how we have actually got to the numbers that I gave.

Vivek Ramakrishnan: Thank a lot sir. I was just looking at the write-offs of INR57.4 crores and the ECL provision knockoff of INR38.2 crores, so I was wondering how the math worked there…

Moderator: Sir, shall we move to the next...

Vinodkumar Panicker: No. Vivek, I think this could -- I would say, this would need to be slightly more detailed. I think we will need to get off-line and discuss these numbers because I will possibly take you through each and every number.

Vivek Ramakrishnan: No problem. Thank you very much and season greetings to you and your team.

Vinodkumar Panicker: I am making a note of it. I will do one thing. Possibly post this call me and my colleagues will actually get on a call with you.

Vivek Ramakrishnan: Thank you. Really appreciate. All the best.

Moderator: Thank you sir. We have the next question from Mr. Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: This is Shubhranshu Mishra here. So I just want to extend the previous question of Vivek. Essentially, if we are seeing a slowdown in CV, what tonnage of vehicles are these? Any geographies you want to point out to? Is it new or used and given the fact that we are largely catering to used vehicles which would be mostly SRTOs, these guys take the spot pricing and the freight prices largely reflect the spot pricing of the fuel. So they shouldn't be under much of a stress if they are taking the spot pricing. So I just wanted to understand these particular nuances?

Karthikeyan Srinivasan: See, Hi Karthik here. See, the challenge is not the pricing. The challenge is the movement of the vehicles. If you see many of the markets, particularly the last week of August or the first week of September markets like Andhra got flooded. So if your vehicle goes -- get stuck there, you don't get the return load the same month. Your vehicle is there for a particular period of time. So you lose your revenue. That is what has impacted the market.

So we are not saying anything around the freight. We have not seen any drop in the freight rate as of now, but the movement has got severely impacted. That has naturally impacted the overall earnings of the operator and that's what we are meaning here. If you see the overall industry, the new vehicle has slowed down because of the monsoon effect. We feel like this month once the monsoon moves away -- the rains move away, the irrigation contracts will kick off fully and the mining will also restart and we will be able to see positivity.

Shubhranshu Mishra: Okay. So in terms of the pricing and the volumes of used vehicles, do we see a similar uptick in FY '25 as we have seen in the last 2 years or 3 years?

Karthikeyan Srinivasan: See, as of today I have not seen any factor which will impact it negatively because if you notice recently Telegana announced a scrappage policy. So the scrappage policy is not very far away. Once that comes in the positivity around the used commercial vehicle industry will remain. Plus many of us are moving customers from the unorganized segment to the organized segment. That is also going to positively impact the used vehicle segment. So I don't see any negativity coming around for this year.

Shubhranshu Mishra: Understood. And if I can just squeeze in one last question, given the fact that you alluded to climatic changes impacting our performance. Are we going to make some kind of reserves in our capital buffers for any climatic changes we might be seeing in the future year because this is seeming to impact a regular movement for quite a few guys.

Karthikeyan Srinivasan: See, in our ECL model the macroeconomic factors like all these has a -- it's a factor. So it gets captured there. And monsoon in India is something which is known for many generations. We all know that during this period, there is going to be an impact. So that gets captured in the ECL model.

Shubhranshu Mishra: What I meant is the erratic nature of monsoon. Of course, I know that the monsoon gets captured in the ECL?

Karthikeyan Srinivasan: See -- what's his name?

Shubhranshu Mishra: Shubhranshu.

Karthikeyan Srinivasan: Sorry. Shubhranshu if there are years in the past also where there have been lower monsoons or monsoons which have got delayed, so all these go into the ECL factor. So we don't -- it is a 5-year factor of macro factors. So I don't see any challenge coming in there or create -- need for creating additional provision.

Shubhranshu Mishra: Understood. Thank you so much. I will come back in the queue.

Vinodkumar Panicker: Thanks Shubhranshu.

Moderator: Thank you so much. We have the next question from Mr. Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Thanks for taking my questions; I had a couple of them. One is I have seen two quarters of collection efficiency declining. I think Q1 was impacted by heatwave, Q2 by I think flood is what you mentioned. So do we see these write-offs or credit costs moving up because of these lower collection efficiencies in the last two quarters for the full year FY '25? Will you change our credit cost guidance? That's the first question?

And the second is, we have also seen on the standalone entity, employee benefit expenses going up sequentially sharply. So any one-offs there, if you could highlight? That would be the second question? And third, any update on what we are going to do with the inflows that we receive from the sale of the housing finance subsidiary? Have we made any decision on that?

Vinodkumar Panicker: Yes, I will take your question, Jigar. Thanks for being on the call. On the credit cost, see these things -- this current quarter has seen some bit of increase in the cost. But then we have factored in these kind of costs on a full year basis. So maybe quarter-to-quarter, we will see changes, but we don't expect things to be deteriorating on a full year basis.

Q1 has seen some bit of cost, Q2 has seen some cost. There would be substantial, I would say, improvement in the third and the fourth quarter. That's what we -- in fact, I think Karthik, in a different context did mention about that, that things will improve as we go forward. So we don't see it's a challenge or we don't see any need to change our credit cost guidance. We had always said that it would be in the 2% range on an overall basis. We'll stick to that and we'll continue to maintain that.

On the employee cost, yes, there are -- -- I think during my initial commentary itself I had mentioned about it, saying that we have seen increased cost. It's largely because of the number of employees that are increasing. In fact, even in this quarter, the costs have gone up because of certain senior management hiring and also on account of hiring of the field staff. We have actually increased the total number in the standalone from about 3,500-odd to close to 4,000-odd.

And then we had -- normally in the first or second quarter we normally have a rewards and recognition kind of event. So that -- last year it was spread over the year. We added about three, four small ones. This time we had one large one. So that is something which has been fully charged to the P&L in the current quarter. Therefore, the cost is higher as far as employee cost goes.

On the inflow, I will request Randhir to -- of HFC, Randhir to actually comment on that, what is it that we are planning to do?

Randhir Singh: Yes. So I think, like I said that while the inflow obviously is some time away, and we expect it sometime in March, April next year. But really our plan is to really use it for the business, for our core business. So the money will be used for our core business which is CV and small businesses. So it's really towards the general business that we do, which is really toward disbursement, loan repayment and regular opex.

So nothing kind of unusual than what we would do with any kind of liquidity. So for our regular business is what we're going to use it for. Exactly specifically, obviously, something that we decide once we are closer to the inflow which is, let's say, 6 months to 7 months from now.

Vinodkumar Panicker : Thanks Jigar.

Jigar Jani: Thank you so much for answering my questions. Thank you.

Moderator: Thank you so much sir. We have the next question from Mr. Prashanth from SBI. Please go ahead.

Prashanth: Hi. Thanks for taking my question. Just broadly three questions. One the increase in write-offs and Stage 3 numbers, if you could just increase what business is leading to that. Secondly, I see that there's additional term loan of around INR815 crores done during the quarter. If you could just give us some more details around that. And lastly, there was something in the public that there's an ARC sale that was done in August '24. If you could just give us an update over that.

Vinodkumar Panicker: . I will possibly start with the last question first. You mentioned about the sale of ARC. See, we have always wanted to close our corporate loan portfolio. And I think in the previous calls also, Prashanth, we had mentioned that we will look at ways and means to get rid of the corporate loan portfolio.

There were 3 loans which were there on our books. And we were looking at seeing how to look at getting rid of them. In 2 of the cases, there are foreclosures being discussed and at advanced stages. The third one -- so if these 2 goes away and we are confident that will go away in a couple of quarters, we didn't want the third loan being -- to be there on the books. And therefore, when we had an opportunity of doing a transaction with an ARC for the third loan, we thought it is necessary to sell it off.

Along with that, there were certain old accounts prior to March '22, which were there of the CV portfolio also, that also we actually got rid off. So that was the total of something like, all put together, roughly INR320-odd crores, which we actually wrote off -- which we removed from the books and sold to an ARC.

On the second question on the bank borrowing, there you rightly said that we have borrowed about INR815 crores of banks -- it was largely -- most of them are banks. Some of it are NBFCs. We actually borrowed about INR50-odd crores from Suryoday. Maybe just to list the other banks, State Bank was there. IDFC Bank was there. Canara Bank there. Karur Vysya was there. DBS was there. And apart from that, we had one NBFC that was Tata Capital.

So all put together, it has come to about INR815 crores. Tata Capital, the total sanction was INR350 crores, of which we have borrowed about INR230 crores. This INR815 crores considers only INR230 crores of Tata Capital. INR120 crores is yet to be drawn.

You mentioned about Stage 3. Yes, see, I think we have responded to the previous queries also. Myself and Karthik in different contexts have mentioned that there has been an uptick in terms of -- I mean there was a reduction in collection efficiencies, which have seen the Stage 3 numbers looking up. And that is seen in the overall numbers going from about -- so INR350-odd crores to INR365 crores.

So we believe that, that has increased in the current quarter, but we are fairly confident that when collection would see improvement in the current quarter and the next quarter, the numbers would go down. So it's a temporary phase, and we are sure, we'll come out of it.

Prashanth: Sure. So both the Stage 3 and the write-off is primarily the CV business, if I understand.

Vinodkumar Panicker : Yes.

Karthikeyan Srinivasan: Yes. We don't have anything else, no, Prashanth.

Vinodkumar Panicker: All others we have already resolved.

Prashanth: Sure, sir. Sir, what would be the average cost for these term loans of INR815 crores? And just on the ARC, if you could give us the total outstanding and provisions as of September end?

Vinodkumar Panicker: Cost is -- or the term loan cost would be in that 10%, 10.25% kind of thing. Its at all in, at PAPM.

Karthikeyan Srinivasan: And on the ARC, what did you want, Prashanth?

Prashanth: So what is the total outstanding SR and provisions as of the September end?

Karthikeyan Srinivasan: See, overall total was..

Vinodkumar Panicker: INR1,386 crores. And on that, we are carrying a provision of about INR348 crores, which is about 25%.

Prashanth: Okay. And there is no P&L hit from this August sale? It's kind of neutral?

Karthikeyan Srinivasan: **Correct.** It is neutral.

Moderator: Thank you so much sir. We have next question from Monshree Soni from MK Ventures. Please go ahead.

Sumit: This is Sumit here. Thanks for Vinod and Karthik before putting this question. Since the questions have already addressed in the previous queries, my question is largely from a 2, 3 years perspective, so we've been cutting down on our corporate book, our SME book in the past many quarters, and now we've done this housing transaction. And we've also started with the Micro LAP pilot project as you mentioned, in this quarter. So broadly if I'm to look at, say, next 2-, 3-year composition, how would our book look like? And what percentage of the book will be CV finance? That is one.

Secondly, we've been giving guidance on the ROA front for the next 2 years. How does that -- so with this heavy weighting of capital and housing being -- and also we've raised funds through warrants, so with all that capital coming in, how would our ROA tree will look like?

And also, one last question on the cost front, which you've addressed to an extent, is that we've added almost 100 branches on the stand-alone and also almost 1,500 employees in the last 1 year. And with this addition now, going forward, how would our cost to income look like? Basicallyif you can give the guidance for this new structure that will be very helpful.

Vinodkumar Panicker: Sumit, I think it's a long list of queries. I we should possibly get off-line on this. I will take you line by line. But having said that, the guidance is that we will -- we are looking at growth, and we are looking at improved profitability in the quarters to come. It is shown by several factors. I will look at the broad things now.

The yields have started going up, number one. The cost of fund, the incremental borrowing cost has gone down. We have started repaying a lot of the high-cost NCDs that we have procured between, let us say, March '23 to February '24. A lot of it has gone down. In fact, I mentioned about INR1,300 crores having been repaid in the current quarter, of which roughly INR500-odd crores was the high-cost NCDs which were there. So that is improving a lot.

We believe that the numbers -- this -- both will ensure that my net interest income goes up significantly. And therefore, my cost to income over a period of time will come down. One of the factors which would definitely be the reason for the cost to income to come down will be the funds which will flow in from the HFC sale, which is there, because that will definitely mean that the asset, which was not yielding anything currently on our P&L, definitely, on a consol basis, it was yielding. It will start yielding substantial, I would say, ROA to us.

And therefore, we believe that the credit cost will be in that 2% range. Everything else, if it improves the credit cost continuing to be at about 2%, we should see a decent ROA. I would not want to put up a number right now to say what the ROA will be, but then we will see significant improvement in ROA as we go forward.

Sumit: So whatever guidance we have given earlier for '25 and '26 given the housing was a little lower ROA on a stable state basis, but the guidance on ROA ideally should go up with that moving out and high ROA retail CV book now becoming the key driver?

Vinodkumar Panicker: Definitely, it should go up. But then I think Randhir said in a different context that we will possibly try and value it closer to the transaction actually happening and the funds coming in.

Sumit: Sure. Thank you so much.

Vinodkumar Panicker: Thanks Sumit

Moderator: Participants if you wish to ask a question you may press star and one. The next question is from the line of Mr. Yash Mehta from Arc Ventures. Please go ahead.

Yash Mehta: Sir, I just had one question. Sir, what is the kind of AUM growth you're targeting in vehicle finance for FY '25 and FY '26?

Karthikeyan Srinivasan: See, FY '25, we will end up at around INR9,000 crores overall. And '26, I believe we should end up at around INR12,000 crores company-wise.

Yash Mehta: Okay thank you sir.

Moderator: Thank you so much sir. We have the next question from Yajash Mehta from Angel One Investor Manager. Please go head.

Yajash Mehta: Sir, just wanted to check what would be our target mix that we'd be eyeing as far as the CV and other small business loan book is concerned, maybe say, by FY '26? And secondly, so just to dig in, you mentioned that there are certain approvals that are pending as far as the HFC business sale is concerned. So would you expect a very smoother sale there? Or you feel there could be any hiccups or any issues that could crop up as far as the relevant permissions are concerned?

Randhir Singh: See, we do not expect hiccups given in the past kind of there have been a few transactions done in the past, and those have sort of sailed smoothly. So there is no reason for us to believe that there should be any challenges. So we do expect a smooth sailing. And I think for the next year, at least for the next 1 year, while, of course, we have launched this Micro LAP, but the main business would remain CV business, and I would expect Micro LAP to be less than about 5% in the near sort of -- in the near term.

And I think maybe after 1 year from now, once we obviously have completed our expansion of some of these Micro LAP branches, I think at that point in time, we'll be in a much better position to give you a guidance of next second and next 3 years. But for now, you should assume that in the near term, it will be less than 5%.

Yajash Mehta: Okay thank you so much.

Ranshir Singh: Because we would -- obviously, the idea here is that we obviously want controlled growth and then obviously, do it in a way which is where we create a solid foundation and then grow. So our attempt would be to have the right processes, right talent, the right cost structure. And once we have the results and convinced, that's when we will sort of accelerate more.

Yajash Mehta: Sir, just the last point. I think last time when I had spoken to Karthikeyan, sir, he had said that FY '26, we would be looking to do close to INR13,000 crores of AUM as far as the CV is concerned. And right now, it's mentioned that it's close to INR12,000 crores that we're looking at. Anything that has changed post this quarter results that you feel that probably we've revised the guidance?

Karthikeyan Srinivasan: Yes. Last time, we told about the company-wide, INR13,000 crores. That's including the housing and everything we said. Now we have revised it to INR12,000 crores because the housing will not be there.

Moderator: Thank you so much sir. We have the next question from Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: Sir, my first question is, I think prior to 2022, you did not have much focus on Tier 3 and Tier 4 cities and was mostly into new CV. And even used CV was to the medium fleet operators. Now our focus has shifted primarily to used CV to the first-time buyers in Tier 3 cities and below. So do we need to close certain branches?

And the second related question is, though our yield on the disbursement is 18%, I'm talking about stand-alone, our yield on the total AUM is much lower. So by which year do you think the yield on the total AUM will be around 17%, 18%? Yes, that's the first two one.

Karthikeyan Srinivasan: Yes. Regarding -- thank you, Anil. The -- regarding the branch closures, the prudent calls have been taken already. Wherever branches which are not viable, we have already exited those branches. So that's not a challenge. Even in Bombay, there are large used vehicle transactions that happen at the price where we want. So we don't see any changes happening there. On the pricing portion of it, I'll request Vinod to take it.

Vinodkumar Panicker: Yes. Anil, on the pricing, the overall yield looks lower because we still have been carrying a bit of corporate loan and SME loan, which are yielding very little. In fact, corporate is in the range of 12%, 13%. Same is the case in the SME.

And the book -- overall book even today contains about 15% of the portfolio, which has been acquired or generated pre-March '22, when we used to do a large number of new vehicles, and therefore, it looks slightly lower than the 18%-plus.

But all the new disbursements that we are doing in CV, in fact, I mentioned about 18.5% being the disbursement yield in the current quarter. And that has been the case at least for the last 2, 3 quarters, from about 17.8% that we were in the March -- no, September 2023 quarter. So the overall yields will move towards the 18%, but it could be maybe 2, 3 quarters away.

Anil Tulsiram: Got it. Sir, and the second question is under the earlier management, we used to do co-lending partnership with the ICICI Bank for SME and the CV funding. So what is our current strategy for co-lending? So can you elaborate on that?

Karthikeyan Srinivasan: See, we were doing co-lending only for CV with ICICI Bank. Typically, it was a sourcing and servicing arrangement. We suspended it in May '22. We are not keen to do that business. So May -- post May '22, we have not done anything.

Anil Tulsiram: Sir, can you explain the rationale? Do we not find it viable or banks don't agree to it? What's the reason we are not interested?

Karthikeyan Srinivasan: See, two things. One, first and foremost, the -- only the tire -- the plan B of the co-lending is an easy option. Plus, I want to grow my book. So I don't want to source and service for somebody else. I want that growth inside my own balance sheet. That's the focus. Thirdly, I am only into used vehicles. The market wants new vehicles. I feel like in today's scenario, a retail FTU profile cannot afford a new vehicle. So all these factors together, we have stayed away.

Anil Tulsiram: Got it. Sir, the next question is on the used car and used tractors. I think we seeded this business sometime in early 2022. So what's the progress here? And how many branches you are operating? What is the future growth plans? Can you elaborate on this point?

Karthikeyan Srinivasan: Used car, we have grown Pan-India month-on-month, quarter-on-quarter. Our numbers have started growing there. On used tractors, we are focused on select markets. Our focus will remain in those 10 markets only, which are -- where we don't see any issues around registration, where we see end-user viability, only these markets we are focusing on.

Anil Tulsiram: Sir, in a couple of years, what percentage of book this will be, so your CV book or total AUM stand-alone?

Karthikeyan Srinivasan: Just now Randhir answered. On the CV book, you're talking about used cars?

Anil Tulsiram: No, no. As a total AUM, what will be the used cars and the used tractors in a couple of years, 5%, 10%?

Karthikeyan Srinivasan: It should not be more than 10% each, 10% on used cars and 5% on used tractors.

Anil Tulsiram: Got it. And sir, I had last couple of questions on the CV finance. I understand 40% to 50% of sourcing is from the channel. So do you plan to expand any direct sourcing? That is one. And a related question is the valuation of CV is in-house and outsourced. And the last one is since we are moving to Tier 3, Tier 4 locations, how are we managing the collection? Is it in-house or outsourced? Because I think this is the cities where we have maximum challenge in the collection?

Karthikeyan Srinivasan: Yes, I'll take it one by one. Valuation is completely outsourced. It is with Pan-India agencies. We have tie-up with three major agencies who are doing the valuation, like Mahindra First Choice kind of companies who are reputed, who are there Pan-India. So there is no in-housing of valuation. The second question, collection is completely in-house. Only the repossession is handled by outside people. I'm sorry, the first question I forgot.

Anil Tulsiram: Any plans to expand direct sourcing? I think it's 40% to 50% is through channels.

Karthikeyan Srinivasan: Yes, understood. See, if I have dropped my average ticket size because I'm going into smaller and smaller products like small commercial and cars, there, the -- typically, this purchase and sale happens through connectors who organize the sale between two individual parties. It's not an organized market like a car. So there, my DSA penetration will go up. Once the market is good, the M&HCV sales goes up, I start focusing, automatically, my direct number will start going up.

Anil Tulsiram: Sir, I have two last questions. Should I join the queue? Or can I ask?

Karthikeyan Srinivasan: You can ask. We'll see.

Anil Tulsiram: Yes. Sir, I think in a few quarters back, we said that we aim to establish a network of 1,000 branches controlled by 200 hubs. So how is this plan going? Are we on track to reach that 1,000 number?

Karthikeyan Srinivasan: 1,000, I don't remember when we said that. Post '23, we have never said that 1,000. We will be, at the end of the year, around 480 branches. Next year, we are planning. We'll come back to you on that.

Anil Tulsiram: Sir, and the last question is there was a comment in the CRISIL report of June 30, 2024, that our total stressed assets remain elevated at 18%, of which we have provided 37%. So can you just help me understand this particular comment?

Vinodkumar Panicker: That CRISIL has mentioned that they have included the securitized portfolio also, when -- we remove it from the receivables. And when CRISIL reports, they add the securitized portfolio also. That's -- the SR value of the -- sorry, it's not the securitized. I meant the ARC transaction and the SR value of the portfolio also. That's the reason they talk about 18%, while we are speaking about 5% or 4.9%.

Anil Tulsiram: And we don't expect any further provisions from the legacy book?

Vinodkumar Panicker: We don't.

Anil Tulsiram: Thanks a lot for your time and very detailed question. That's it for my side.

Moderator: Thank you. We have the next question from the line of Mr. Vivek Ramakrishnan from DSP Mutual Funds. Please go ahead.

Vivek Ramakrishnan: So in terms of security receipts, is there anything that we can expect in the next 1, 2 quarters because that's also consuming your capital?

Vinodkumar Panicker: We don't see any increase. We are going to see inflows against that. And we are fairly confident that all the security receipts that we have on our books will see monetization, because that's the only way we can possibly ensure that the ROA goes up significantly. And therefore, we are working on that.

Vivek Ramakrishnan: That's right, sir. I meant monetization only in the sense -- is there anything expected in the next 1, 2 quarters? Are you hopeful of that?

Vinodkumar Panicker: We are working on it, because unless it actually concludes, we don't want to make a comment on that.

Vivek Ramakrishnan: Okay, thank you. Good luck.

Vinodkumar Panicker: Thanks, Vivek. We'll get in touch separately on the first set of questions.

Moderator: Thank you so much, sir. Ladies and gentlemen, in the interest of time, that was the last question. I would like to now hand the conference over to Mr. Viral Sanklecha from Orient Capital for closing comments. Please go ahead, sir.

Viral Sanklecha: Thank you, Shilpa. I would like to thank the management for taking the time out for this conference call today. And also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital, Investor Relations advisors to IndoStar Capital Finance Limited. Thank you so much.

Moderator: On behalf of IndoStar Capital Finance Limited, that concludes this conference. Thank you so much for joining us. You may now disconnect your lines.